

Foreword



Report of the Auditor General to the House of Commons for December 2000

Foreword

I am pleased to present the December volume of my 2000 Report. This Foreword is followed by “Matters of Special Importance – 2000” and the Main Points from all of this year’s chapters. This volume of my Report contains the following 18 chapters:

18. Governance of Crown Corporations
19. Reporting Performance to Parliament: Progress Too Slow
20. Managing Departments for Results and Managing Horizontal Issues for Results
21. Post-Secondary Recruitment Program of the Federal Public Service
22. Development of the Universal Classification Standard: A Follow-up
23. Information Technology: Acquisition of Goods and Services
24. Federal Health and Safety Regulatory Programs
25. Canadian Food Inspection Agency – Food Inspection Programs
26. Health Canada – Regulatory Regime of Biologics
27. Canadian Nuclear Safety Commission – Power Reactor Regulation
28. Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29. Treasury Board Secretariat – The Government’s Annual Contracting Activity Report – 1998
30. Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31. Fisheries and Oceans – Fleet Management
32. National Defence – Defence Support Productivity: A Progress Report
33. Follow-up of Recommendations in Previous Reports
34. Other Audit Observations
35. Sustainable Development Strategy for the Office of the Auditor General

My Office issued the first volume of the 2000 Report in April, containing 9 chapters, and the second volume in October 2000, containing 8 chapters.

In addition, this year my Office has provided:

- an auditor's report and observations on the Financial Statements of the Government of Canada;
- an auditor's report and observations on the Statement of Transactions of the Debt Servicing and Reduction Account; and
- some 90 auditor's reports and observations on federal Crown corporations, federal departmental corporations and other entities; territorial governments, corporations and other entities; and international organizations.

In 1999–2000, my Office completed special examinations of Standards Council of Canada, National Museum of Science and Technology, Canada Development Investment Corporation, Export Development Corporation, Marine Atlantic Inc., Old Port of Montreal Corporation Inc., Canada Deposit Insurance Corporation, Enterprise Cape Breton Corporation, National Gallery of Canada, Freshwater Fish Marketing Corporation, Queens Quay West Land Corporation and Royal Canadian Mint. Further, in the subsequent period from April to October 2000, my Office also completed special examinations of Laurentian Pilotage Authority, Canadian Dairy Commission, Canadian Broadcasting Corporation and Canada Lands Company Limited.

Under section 11 of the *Auditor General Act*, I may undertake, from time to time, assignments at the request of the Governor in Council. In 2000, we received the following requests under this section:

- Inquire into the Yukon Workers' Compensation Health and Safety Board.
- Inquire into and report on the accounts and financial transactions of UNESCO, including any observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organization, for three consecutive fiscal years commencing in the year 2000–2001.
- Audit, each year, the annual financial statements of the Canadian Nuclear Safety Commission.
- Inquire and report on the reconciliation referred to in article 23 of the Sales Tax Collection Agreement between the Government of Canada and The Kamloops Indian Band.

Main Points

Table of Contents

Page

Main Points – April 2000

Chapter

1	Service Quality	5
2	Human Resources Development Canada – Service Quality at the Local Level	7
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program	9
4	Indian and Northern Affairs Canada – Elementary and Secondary Education	11
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry	12
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development	13
7	Royal Canadian Mounted Police – Services for Canada’s Law Enforcement Community	15
8	Department of Finance – Managing Canada’s Debt: Facing New Challenges	16
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities	18

Main Points – October 2000

Chapter

10	Transport Canada – Airport Transfers: National Airports System	20
11	Human Resources Development Canada – Grants and Contributions	22
12	Values and Ethics in the Federal Public Sector	24
13	Assessment of Financial Management Capabilities in Departments	26
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements	28
15	Health Canada – First Nations Health: Follow-up	30
16	Follow-up of Recommendations in Previous Reports	32
17	Other Audit Observations	33

Table of Contents

Page

Main Points – December 2000

Chapter

18	Governance of Crown Corporations	34
19	Reporting Performance to Parliament: Progress Too Slow	36
20	Managing Departments for Results and Managing Horizontal Issues for Results	38
21	Post-Secondary Recruitment Program of the Federal Public Service	40
22	Development of the Universal Classification Standard: A Follow-up	42
23	Information Technology: Acquisition of Goods and Services	44
24	Federal Health and Safety Regulatory Programs	46
25	Canadian Food Inspection Agency – Food Inspection Programs	48
26	Health Canada – Regulatory Regime of Biologics	50
27	Canadian Nuclear Safety Commission – Power Reactor Regulation	52
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs	53
29	Treasury Board Secretariat – The Government’s Annual Contracting Activity Report – 1998	54
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks	56
31	Fisheries and Oceans – Fleet Management	57
32	National Defence – Defence Support Productivity: A Progress Report	59
33	Follow-up of Recommendations in Previous Reports	61
34	Other Audit Observations	63
35	Sustainable Development Strategy for the Office of the Auditor General	64



Service Quality

Chapter 1 – Main Points

1.1 The purpose of our audit was to see whether the federal government is providing better quality of service to Canadians, after a decade of commitments and a series of initiatives to improve it. In 1996, we provided a midcourse assessment of the government's progress. In the current audit, we revisited the same 13 services delivered by 10 government departments and agencies.

1.2 The most significant improvement since 1996 has been to make telephone services more accessible. Canadians are now able to obtain faster responses to their enquiries once their calls are answered. Despite that improvement, however, we are concerned by the high percentage of calls not answered when lines are busy and calls abandoned while the caller waits on hold to speak to an agent. At the Canada Customs and Revenue Agency (Taxation) the percentage of unanswered calls remains high at 54 percent, although it has improved since 1996, when it was 73 percent.

1.3 For most services delivered by means other than telephone, such as counter service, there was not enough performance information for us to determine whether service has improved. The Passport Office has measured some of its key results and demonstrated significant improvement in its performance. Many departments and agencies have taken initiatives since 1996 to improve service but have not sufficiently measured the results.

1.4 Departments and agencies need to consult more with their clients to identify the aspects of service that matter most to them, as well as the quality of service they expect. This information would help the service providers establish appropriate targets and indicators of performance to measure.

1.5 Communication to clients at points of service has improved since 1996. Canadians visiting these offices are better informed about the level of service they can expect. However, more attention is needed to informing them on what it costs to provide the services, whether targets have been met and how they can lodge and resolve complaints.

Background and other observations

1.6 The demand by Canadians for services of the federal government — such as enquiries about citizenship and immigration, Old Age Security, passports, weather or statistical information — has increased significantly since 1996. Volumes of service are higher in 10 of 13 service lines we audited. At the same time, the environment for delivering services continues to evolve with rapid advances in information technology and growing use of alternative methods of service delivery.

1.7 Telephone services have become increasingly prominent, while the use of counter services has declined. In the government telephone services we audited, the volume of telephone enquires climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent. The numbers of written enquiries (mail, fax and e-mail), while still important in some services lines, are generally much lower.

1.8 Although service managers have acted on our 1996 recommendations and sought ways to make continuous improvements, none of the recommendations has been implemented fully. However, we noted a shift among public service managers and staff toward a stronger focus on service and innovation.

1.9 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). The need to redesign them was identified in 1990 by the Public Service 2000 Task Force on Service to the Public.

1.10 Over the past three years, departments and agencies have provided Parliament with more information on service quality, and the information they report is more likely to be meaningful. But better information is needed on performance trends and on costs.

1.11 Since 1998, the Treasury Board Secretariat has given departments and agencies more guidance and support to improve service delivery. However, it has not systematically monitored progress across the government, and the information it has reported to Parliament has not been adequate to provide a clear understanding of progress in improving the quality of service to Canadians.

The response of the Treasury Board Secretariat on behalf of the government is included at the end of the chapter. The Secretariat indicates that the new Blue Pages telephone directory format will be implemented according to established publication schedules. The Secretariat agrees with our recommendations on measurement, client satisfaction and reporting. It indicates that it is working with departments to develop an approach designed to promote continuous improvement in service delivery across the government.



Human Resources Development Canada

Service Quality at the Local Level

Chapter 2 – Main Points

2.1 Human Resources Development Canada (HRDC) has made considerable progress in addressing service quality. National initiatives in recent years have included developing a policy to guide its approach to high-quality service, implementing a new service delivery network to make services more accessible to Canadians and setting out national service commitments to clients. Initiatives at the local level include upgrading the service-related skills of employees and using new technologies.

2.2 Although HRDC has defined national service commitments, we found they are not communicated consistently to clients at points of service. Further, local offices do not consistently inform clients about performance toward service delivery targets, the cost of services, and how to lodge complaints about the service received and obtain redress.

2.3 The Department does not have performance measures for all of its national service commitments. Measures of service performance focus on waiting time for counter services and the speed of processing and payment, but there are weaknesses in the measurement of both these indicators.

2.4 Despite improvements in the timeliness of Employment Insurance payments over the past three years, estimated incorrect payments have increased over this period from \$4 to \$6 for every \$100 paid out. Available information shows that both underpayments and overpayments have increased for a variety of reasons, including a decline in the quality of information submitted by employers. We found that local office managers focussed mainly on speed of payment. There are neither performance targets nor measures of accuracy for the processing of claims at the local level.

2.5 Employment assistance services are increasingly provided by non-governmental organizations, under contribution agreements with HRDC. The agreements we reviewed do not set out service performance expectations or targets. Nor do they require the non-governmental organizations to be accountable for the quality of the services they provide.

2.6 There are gaps in the information the Department provides to Parliament on its performance in meeting its national service commitments. We also found gaps in the information that would help to provide context for the service performance that it does report. For example, information on the timeliness of paying Employment Insurance claims cannot be assessed in relation to information on the accuracy of payments.

Background and other observations

2.7 Almost one in three Canadians is a client of HRDC. Each year the Department processes 60 million to 80 million program claims and applications, sends about 100 million letters and pays out over \$50 billion in various benefits. Most programs and services are offered at the local level, through one of the federal government's largest service delivery networks. It comprises 320 Human Resource Centres of Canada, 5,000 self-service kiosks, 21 telephone centres and 10 mail centres. Almost 80 percent of HRDC's 21,000 employees work at the local level.

2.8 To make continuous improvements in the quality of services, managers need to seek more feedback from clients at the local level through such means as client satisfaction surveys and analysis of client complaints. There is no policy for handling complaints in either the Employment Insurance Program or the Income Security Programs. However, the latter has started to develop such a policy.

2.9 The Department does not have the cost information it needs to manage the trade-off between the cost of its main services and their quality. We believe it needs to give more attention to developing and implementing action plans at the local level for continuous improvement in service quality.

The Department's responses to our recommendations are included in this chapter. For the most part, the Department agrees with the recommendations and indicates the steps that it is taking or intends to take to address them.



Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Chapter 3 – Main Points

3.1 We noted serious deficiencies in the management and delivery of the economic component of the Canadian Immigration Program, whose purpose is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society. These deficiencies seriously limit Canada's ability to maximize the economic and social benefits that immigration affords, and to protect the integrity of its Immigration Program.

3.2 We found that immigration offices abroad are overtasked. They have much difficulty coping with the volumes of work and responsibilities assigned to them. Immigration levels set by the government are not met, and applicants are waiting longer and longer for their applications to be finalized — sometimes more than three years.

3.3 We noted weaknesses that leave Citizenship and Immigration Canada open to criticism of the quality and consistency of its decisions in selecting immigrants. Visa officers need better selection criteria, better training and better tools to assess immigrant applications more effectively. In addition, the Department does not sufficiently monitor the quality of their decisions. We noted significant differences in approval rates among officers processing similar cases.

3.4 Our audit revealed significant weaknesses in the management of medical assessments of prospective immigrants. Since our last audit in 1990, the Department and Health Canada have been unable to take a position on whether changes to standards for medical examinations are required to determine if an applicant poses a danger to public health and safety, or could place excessive demand on health care systems or social services. The same routine tests have been required for the last 40 years and the departments have not decided whether applicants should be routinely tested for any infectious diseases other than syphilis and tuberculosis. We are also very concerned about the lack of rigour and consistency in the overall management of medical assessment activities, including the procedures for supervising the designated local physicians who perform medical examinations of prospective immigrants abroad.

3.5 There are serious constraints on establishing criminality and security admissibility of prospective immigrants. Visa officers have little information and support to ensure that applicants are not likely to engage in criminal activities or endanger the safety of Canadians. Some people are thus admitted to Canada without reasonable assurance that they have not committed crimes abroad, engaged in espionage, subversion or terrorism, or been associated with organized crime.

3.6 The Department is particularly vulnerable to fraud and abuse. It has no effective measures in place to discourage people from submitting fraudulent applications, and visa officers often resort to detection methods that are costly. In addition, we found inadequate control over revenues, visa forms and computer systems.

3.7 Employees responsible for processing immigrant applications in offices abroad are deeply concerned about the present state of affairs. They feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.8 Overall, it is highly questionable whether the Department has the resources and the operational capacity it needs to carry out the tasks required to meet the annual immigration levels set by the government.

Background and other observations

3.9 Citizenship and Immigration Canada is responsible for, among other things, setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin.

3.10 In 1999, approximately 190,000 immigrants were admitted to Canada. There are four broad components in the Immigration Program: family, economic, refugee, and other. Our audit focussed on the economic component, which accounts for 56 percent of landed immigrants each year. This component is aimed at recruiting skilled workers and business immigrants.

3.11 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices and process a large volume of immigration visas, visitor visas, and student and temporary employment authorizations each year. Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program, including the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service, the Royal Canadian Mounted Police and Health Canada.

3.12 It is disappointing to note that several of the deficiencies discussed in this chapter are similar to those we reported in 1990. Over the years, the government and the Department have undertaken a number of initiatives to remedy the situation, but without much success.

3.13 This situation requires immediate attention by both the Department and the government. On the one hand, the Department must improve its efficiency in processing immigrant applications. Offices abroad are buried in paperwork, and their outdated technology is a serious obstacle to improving performance. The Department needs much better information on the resources required to fulfil its responsibilities in processing applications. On the other hand, a significant investment of resources may be needed to correct the deficiencies we noted and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential that in deciding on annual immigration levels, the government ensure a proper balance between the resources allocated to the Department and its federal partners and the workload required to meet those levels.

3.14 The Department's current review of the *Immigration Act* provides an excellent opportunity to correct some of the deficiencies. However, the challenge for the government and the Department is enormous and complex. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, we encourage parliamentarians to follow the situation closely.

The responses of Citizenship and Immigration Canada, Health Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and the Department of Foreign Affairs and International Trade are included in this chapter. They agree with our recommendations and note that initiatives are under way in several areas.



Indian and Northern Affairs Canada

Elementary and Secondary Education

Chapter 4 – Main Points

4.1 Indian and Northern Affairs Canada cannot demonstrate that it meets its stated objective to assist First Nations students living on reserves in achieving their educational needs and aspirations. For example, the Department does not have the necessary assurance that First Nations students are receiving culturally appropriate education. Moreover, the progress in closing the education gap for Indian students living on reserves has been unacceptably slow. At the current rate of progress, it will take over 20 years for them to reach parity in academic achievement with other Canadians.

4.2 To obtain assurance and effectively discharge its responsibilities, the Department needs to resolve several major issues. These include the need to articulate its role in education, to develop and use appropriate performance measures and to improve operational performance. In addressing these issues, the Department will need to further take into account the cultural and special needs of Indian students as well as socio-economic factors that can affect success in education.

4.3 The situation is complex and urgent, and the urgency will increase as more demands are placed on education as a result of an increasing population on reserves, and changes in technology and in provincial education programs upon which the Department relies. Although the Department has identified or started several projects for education reform, it must still respond with significant action to resolve these issues.

Background and other observations

4.4 The Department is empowered to take an active role in the provision of elementary and secondary education for Indian children living on reserves. Although it has chosen to rely on First Nations and the provinces for the design and delivery of appropriate education, the Department acknowledges that this approach does not diminish its responsibility and accountability.

4.5 For more than 100 years, various statutes, Indian treaties and government policies have shaped the mandate and responsibilities of Indian and Northern Affairs Canada for education.

4.6 Presently, about 117,000 students enrolled in elementary and secondary schools live on reserves. Current budgeted costs, not including school construction and maintenance, are about \$1 billion annually.

Indian and Northern Affairs Canada acknowledges the importance of the issues identified in this chapter. It believes that Gathering Strength — Canada's Aboriginal Action Plan, and other planned education initiatives involving the Department, First Nations and provincial governments, will help close the education gap cited in this chapter.



Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

Chapter 5 – Main Points

5.1 The Canada Customs and Revenue Agency has many efforts under way to modernize its Customs operations and to make effective use of technology. However, we found that it needs to make some significant improvements.

5.2 A well-articulated and comprehensive compliance strategy is a key element of promoting compliance. Customs does not yet have an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and that outlines its approach to responsible enforcement.

5.3 We found that risk assessment is incomplete: Customs does not have important information it needs from a variety of departments and agencies to fully assess the risks its inspectors face. It needs to know where the risks are highest so it can determine the best way to control them. We have recommended that Customs work more diligently to obtain information on the risks arising from the responsibilities it carries out at ports of entry on behalf of other departments — Citizenship and Immigration Canada, Health Canada and the Canadian Food Inspection Agency, for example — and include them in its national risk assessment. It also needs to have up-to-date memoranda of understanding with those departments, setting out their respective roles and responsibilities.

5.4 We also found that Customs inspectors at the border and at airports need to be better equipped to do their complex job. They must enforce customs and excise legislation and make a variety of decisions for many other government departments. In processing travellers, Customs inspectors have only a short time to make these decisions. Customs does have information, systems and training to assist its officers but the information is not shared consistently, the systems need improvement and the training is uneven.

Background and other observations

5.5 In 1998–99 the Customs program of the Canada Customs and Revenue Agency processed over 104 million travellers who entered Canada at ports of entry. About half were returning Canadian residents. Most travellers enter Canada by highway from the United States (79 percent) or at airports (17 percent). Since 1991–92 the number of travellers coming by highway has decreased, while the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement.

5.6 Over the years, Customs' role has evolved from mainly collecting revenue to one of facilitating the entry of travellers and goods, while protecting Canadian society and promoting the competitiveness of Canadian businesses.

5.7 Customs operates in an environment that continues to change. To help it deal with change, it developed discussion papers in 1990 and again in 1998 as blueprints for the direction it would take in the future and the initiatives it would employ. Customs has taken some major steps toward reaching the goals it set for itself in 1990. It recently released a draft five-year action plan to implement the initiatives identified in its 1998 discussion paper.

The Canada Customs and Revenue Agency's responses to our recommendations are included in the chapter. The Agency agrees with the seven recommendations, and its responses describe a number of actions under way to deal with them.



Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

Chapter 6 – Main Points

6.1 In 1994 the government restricted the period for filing tax credit claims for scientific research and experimental development (SR&ED) to 18 months after the year in which taxpayers incurred them. The Canada Customs and Revenue Agency then received 16,000 additional claims, which represented \$2.8 billion in credits for taxation years as far back as 1985.

6.2 Our audit revealed significant inconsistencies in the handling of these claims. These inconsistencies compromised the fairness of the review process. In addition, serious professional differences of opinion arose within the Agency on how to resolve a dispute with a claimant over a significant claim. The Agency did not demonstrate that it had effective mechanisms to resolve this type of difference among its officers on individual cases.

6.3 The lack of clarity about the eligibility of SR&ED projects has resulted in unresolved claims dating back to 1985. The claimed tax credits amount to hundreds of millions of dollars. Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what constitutes an eligible activity or project, how thoroughly a science officer should review a claim and how much documentation is necessary to support a claim. Clearer rules are urgently needed to deliver and administer the program effectively and efficiently.

6.4 The Agency has recognized the need to improve the administration of the program. To this end, after consulting stakeholders, the Minister of National Revenue released an action plan in November 1998. The Agency created a new Directorate and appointed a new head of the program.

6.5 According to our audit, the Agency needs to improve the assessment of the risk that taxpayers' claims are ineligible so that science and audit staff can focus on claims with the highest risk. The Agency manages the risk of ineligibility by conducting completeness checks, risk assessments, audits and science reviews.

6.6 An evaluation of the SR&ED program, done by the Department of Finance and the Agency, may have overstated the impact of the program in generating additional spending on SR&ED. The evaluation also indicated that the program generated only a net increase in Canada's real income of between \$20 million and \$55 million per year.

Background and other observations

6.7 The federal government encourages research and development in the private sector through tax incentives. Taxpayers receive tax credits once they have incurred expenses on their projects.

6.8 The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over \$10 billion in SR&ED expenses and \$2 billion in tax credits. Large corporations claimed 85 percent of total expenses.

6.9 A staff of 144 science advisors and 268 financial auditors review claims in 37 tax services offices across the country. Advisors determine whether the work is eligible under the program and auditors examine whether the related costs qualify.

6.10 A key objective of the Agency's 1998 action plan was to reduce uncertainty about the eligibility of science projects. As a result, the Agency and industry proposed a definition of an SR&ED project that, in our view, modifies the level of eligible SR&ED work and expenses and that could result in additional costs in tax credits. If any significant changes were made to the definition of an SR&ED project, they would need to be reviewed by the Department of Finance, which is responsible for the program's policy objectives, costs and related legislation.

The responses of the Canada Customs and Revenue Agency and the Department of Finance are included in the chapter. Their responses describe the action they have taken and will continue to take to address our recommendations.



Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

Chapter 7 – Main Points

7.1 The levels of service that the RCMP provides to the Canadian law enforcement community do not meet the needs of its clients. For example, the Canadian Police Information Centre (CPIC), a backbone system that provides information to police officers, courts, prisons and parole officers, was unavailable regionally or nationally 11 percent of the time last year. DNA analysis takes too long and is limited to only the most important cases. Thus, its full potential for public safety is not being realized. Backlogs of up to two months exist for inputting criminal history records and fingerprints into data banks. As a consequence, the criminal records and fingerprint data available to the police and others are not current. In addition, criminal record checks required by employers or volunteer organizations take too long.

7.2 It is imperative that senior management at the RCMP take action to eliminate backlogs in many of the services and improve efficiency. In particular, the RCMP needs to rationalize the number of laboratories in order to improve their level of service. Significant improvement is also required in performance measurement and the reporting of results. It is important that users, senior RCMP management and Parliament know these results.

7.3 The arrangement between the federal government and the provinces set in 1966 for these services needs to be rethought. It is time for a clear agreement among all the players in the law enforcement community — in the federal, provincial and municipal governments — on level of service, funding arrangements, user input, management and accountability. A new agreement will require the collaboration of all parties.

Background and other observations

7.4 The RCMP provides a range of services that are essential to the Canadian law enforcement community: police, courts, prisons and parole boards. These services include fingerprint identification, criminal history records, forensic laboratories, criminal intelligence and on-line access to data banks such as vehicle registration, drivers' licences, wanted persons and stolen property. In 1998–99, the RCMP spent approximately \$122 million on these services.

7.5 There are a number of areas where the RCMP deserves credit for the way it has operated these services: it has kept the old CPIC information system operational while awaiting a new system; it has implemented new forensic techniques such as DNA analysis; it is developing a data bank for DNA; and it has made major upgrades to fingerprint identification and criminal history records systems.

7.6 Our last audit of services to the law enforcement community was in 1990. We made a number of recommendations to improve operational economy and efficiency. Attention has only recently been paid to many of our recommendations and others have not been addressed. These national services have also been reviewed several times over the past decade by the Solicitor General Canada, the Treasury Board Secretariat and the RCMP itself.

The RCMP agrees with the findings and indicates that it will be taking action.



Department of Finance

Managing Canada's Debt: Facing New Challenges

Chapter 8 – Main Points

8.1 Canada's debt management program is a well-run operation overall. But like any program that faces a changing environment, it needs to adjust. We have noted three areas where the Department of Finance needs to review its practices. These include:

- establishing a more complete range of performance measures to ensure that it has a sound basis for assessing how well the program is doing at meeting its objectives. Currently, the Department uses a variety of information internally but reports its performance for only one target — the ratio of fixed-rate debt to the total debt, now at two thirds;
- improving transparency to ensure that there is a public accounting of not only the benefits of decisions on all aspects of debt management but also the costs. In recent years, the government significantly increased the proportion of fixed-rate debt and the level of foreign exchange reserves, and established targets for retail debt — all without disclosing the expected costs of these decisions; and
- modifying the management of strategic planning by consulting a range of outside experts to ensure that the Department obtains complete and independent advice.

Background and other observations

8.2 At the end of 1998–99, Canada's interest-bearing debt stood at \$595 billion and the annual interest charges on that debt amounted to \$41.4 billion. Managing the debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and the Canada Investment and Savings agency.

8.3 The principal objective of the debt management program is to provide stable, low-cost funding for government operations while keeping liquid the domestic markets for that debt. Another objective is to ensure that there are adequate reserves in the Exchange Fund Account to moderate volatility in the exchange rate on the Canadian dollar.

8.4 We found that the people who manage this program are a highly committed group. They closely monitor fiscal and economic developments that could affect debt management operations, and they consult regularly with financial market participants. They use sophisticated modelling techniques to identify debt management risks and to choose appropriate debt strategies.

8.5 Our audit dealt not so much with the choices debt managers make or the analysis underlying those choices as with the way they measure performance, the information they report, and the governance of the program.

8.6 Over the last few years, the government has made some major decisions in managing the federal debt. It has increased the proportion of longer-term, fixed-rate debt to two thirds of the total, some 18 percent higher than three years ago. While fixed-rate, longer-term debt makes the government's interest costs more predictable and reduces rollover risk, it generally costs more because long-term interest rates are normally higher than short-term rates.

8.7 Over the same three-year period, Canada's foreign exchange reserves have more than doubled, to US\$25 billion. A higher level of foreign reserves improves the government's ability to promote stability in the value of the Canadian dollar, and also provides a larger pool of funds that can be used to finance unanticipated needs. But this comes at a cost, because the interest paid on foreign currency borrowing is normally higher than the interest earned on foreign reserve assets.

8.8 We also looked at retail debt — the sale of Canada Savings Bonds and Canada Premium Bonds. We noted that despite renewed attention to the sale of these bonds and the creation of a special operating agency to market them aggressively, we have seen no conclusive evidence that retail debt is cost-effective. We encourage the government to review the role of the retail debt program and its cost implications. We also encourage the government to disclose the results of this review when it completes it.

The Department's response to our recommendations are included in this chapter. For the most part, the Department accepts the thrust of our recommendations and indicates how it is responding to them.



Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

Chapter 9 – Main Points

9.1 We undertook this study to draw to Parliament’s attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the public service.

9.2 The current framework governing human resource management in the “core” public service is unduly complex and outdated. Administrative systems are cumbersome, costly and outmoded. The framework is ill suited to an environment that demands flexibility and adaptability — an environment that faces significant challenges in human resource management and an increasingly competitive labour market.

9.3 Public service staffing is a major source of frustration both to managers and to employees. The system is rule-bound and inefficient. Managers need to have more authority in staffing, but they also must be more clearly accountable for their decisions. The interests of employees must be respected, but there is a pressing need to modernize and streamline the processes for staffing and related recourse.

9.4 Concerns about “fractured responsibility” for human resource management are long-standing. Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

- In human resource management, deputy ministers — leaders of the major organizations of government — have been seen as primarily responsible for administering a centrally prescribed framework. A significant step in their role is needed. Deputies should have pivotal responsibility for developing and maintaining a healthy work environment in their departments, and their responsibilities for human resource management need to be set out formally. Deputy ministers should be clearly accountable for the way their departments perform these responsibilities.
- The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and in the way it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission also needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act*.
- There is a need for the Treasury Board to strengthen its reporting to Parliament on the aspects of human resource management for which it is responsible. As well, there is a need to clarify the responsibility of deputies for reporting on the quality and effectiveness of human resource management in their departments.

Background and other observations

9.5 The core public service is now substantially smaller than at any time since the early 1970s. It has diminished by almost 100,000 employees in the last 10 years, to about 143,000 employees by the end of 1999. Government downsizing, devolution, privatization, limited recruitment and other measures were factors in this reduction. More than 50,000 public servants have moved from the “core” public service (for which Treasury Board acts as the employer) to “separate employers” like the Canada Customs and Revenue Agency.

9.6 Knowledge workers now constitute 55 percent of public servants (up from about 33 percent 15 years ago). They are bringing new expectations to the workplace, heightening the need for change.

9.7 The percentage of public service employees aged 45 to 54 has almost doubled over the last 14 years, and 70 percent of executives could retire within 10 years. This is generating concern about a potential leadership crisis. Moreover, youth are underrepresented: the percentage of public servants under 35 years of age is roughly half that in the Canadian work force.

9.8 In 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997, there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals. It takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. This is about twice as long as reported by selected quasi-public organizations. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months.

In its corporate response, the government agrees on the need for a strong human resource management framework and on the importance of the health of the public service. It is more optimistic than the Auditor General on some matters, and notes recent initiatives to address some issues. In a supplementary response, the Public Service Commission indicated its continuing efforts to improve staffing systems and to engage in a dialogue with Parliament.



Transport Canada

Airport Transfers: National Airports System

Chapter 10 – Main Points

10.1 Our audit examined how Transport Canada handled the transfers of Canada's largest and busiest airports between 1992 and 1999. These airports make up Canada's National Airports System. Under the transfer agreements, Transport Canada retains ownership of the airports but leases out their management, operation and development to bodies known as airport authorities. Our audit concentrated on the financial and oversight aspects of airport transfers in the National Airports System (NAS), not on security and safety.

10.2 We found many significant weaknesses in management practices. Among our most important observations are the following:

- Before it started the lease negotiations for each airport transferred in the second round, and any renegotiations, Transport Canada did not determine the fair market value of the airport assets and business opportunities it was transferring. Such information is fundamental to both negotiating and renegotiating leases and, in our view, its absence represents a clear departure from sound management practice. The quality of information for making decisions on such things as rent is significantly impaired as a result.
- The Department has renegotiated four leases, at a cost to the government of about \$474 million in forgone rent (\$342 million net present value). The renegotiated deals do not adhere to some of the government's key directions. Further, Transport Canada cannot demonstrate how the deals for all of the transferred airports are equitable, uniform, consistent and fair, one with the other, as the government directed.
- As a result of renegotiations, the government has, in effect, agreed to a reduction of future revenues of the Crown and to the funding of significant capital projects. The information presented to Parliament on forgone rent and the funding of capital projects was fragmented, incomplete and, in some years, non-existent.
- From 1992 to 1999, the government continued to provide financial support to most of the transferred airports. It provided to the airport authorities a total of \$360 million, including \$118 million in rental credits at Lester B. Pearson International Airport toward a number of renovation projects. The government received a net total of \$593 million in rent from airport authorities in this period.
- As assessed by its consultants, the Department's preliminary financial results indicated that five years after transferring the first four airports in 1992, the government's most likely financial position varied significantly after each transfer — from better off to worse off. Although the analysis had been completed — as part of three separate studies with a total cost of \$680,000 — a year before our audit ended, we found that Treasury Board and Cabinet had not yet seen the results. The Department has yet to conduct any such analysis for any of the other transferred NAS airports.
- We are concerned that eight years into the transfer process, Transport Canada has yet to clearly define its role as landlord and overseer of the National Airports System. Its handling of key emerging issues such as those related to airport improvement fees, subsidiaries and sole-source contracting has generally been inadequate and, until 1997, was virtually non-existent. Treasury Board and/or Cabinet have received little information on these issues, and some of what they have received has been incomplete and inaccurate.

Background and other observations

10.3 Airports in the National Airports System have been transferred in two rounds. In 1992, Transport Canada leased out the management and administration of four major airports — at Montreal (Dorval and Mirabel), Vancouver, Calgary and Edmonton — to four “local airport authorities”. The second round began in 1996 with the transfer of Toronto’s Lester B. Pearson International Airport. Since then, 12 other airports, including those at Ottawa, Victoria, Winnipeg and Moncton, have been transferred to “Canadian airport authorities”. At the end of our audit, the last four NAS airports — Gander International, Québec/Jean-Lesage International, Fredericton and Prince George — remained to be transferred.

10.4 Although Transport Canada began transferring airports in the late 1980s and has been leasing out airports since 1992, only in 1994 was the National Airports Policy issued. The government saw transfers as a means of funding expansion in the vital National Airports System, making airports more competitive and viable and giving communities the flexibility to use them as tools for economic development. At the same time, Transport Canada would be able to oversee the entire System.

10.5 Transport Canada notes that a number of aspects of the transfer initiative have been positive and that airport authorities have made some strategic choices that have also represented difficult operational decisions. These included, for example, the expansion of passenger facilities, liberalization of operating policies and relocation of scheduled traffic from one airport to another.

The Department’s responses to our recommendations are included in this chapter. While the Department agrees with the majority of the recommendations and indicates the steps that it is taking or intends to take to address them, it takes a different position on a number of issues as reflected in its response following paragraph 10.106.



Human Resources Development Canada

Grants and Contributions

Chapter 11 – Main Points

11.1 Our audit examined four of the grant and contribution programs included by Human Resources Development Canada (HRDC) in its 1999 internal audit. We concluded that there were widespread deficiencies in the management control frameworks of all four programs. Our findings, which covered the period to December 1999, confirmed — and extended — those of the Department’s 1999 internal audit. Among other things, we found breaches of authority, payments made improperly, very limited monitoring of finances and activities, and approvals not based on established processes.

11.2 The results that projects were to achieve were often not defined in terms that could be measured. Even when they were (as in the case of Youth Internship Canada), results were not measured systematically to provide managers with feedback for making necessary improvements and to provide a basis for accountability. Some evaluation of these programs had been done. The evaluations of the Sectoral Partnerships Initiative and Transitional Jobs Fund resulted in some program changes. However, we could not support the Department’s findings on the effectiveness of the Transitional Jobs Fund.

11.3 The Department’s review of 37 “problem files” identified by its internal audit for further follow-up established few cases where money could be recovered from project sponsors, because most payment errors resulted from inappropriate practices by departmental staff. Many of these practices are not acceptable — proceeding without required approvals, relying on oral contracts and paying for ineligible expenses, for example. Reporting by HRDC on the results of the review focussed on overpayments and provided little information on the problems found.

11.4 Current management is committed to addressing the serious weaknesses in the management control framework in the period up to December 1999 that our audit and the 1999 internal audit identified. HRDC has corrective action planned and being implemented in response to the problems identified in its 1999 internal audit. The actions and plans also address the deficiencies we found in our audit.

11.5 The Department has made good progress toward meeting the commitments in its Six-Point Action Plan announced in February 2000. Management is enhancing the tools and the support available to staff to improve their ability to do their jobs. Work is also proceeding on additional initiatives that expand or complement the original action plan.

11.6 HRDC management will need to sustain its efforts and attention if it is to achieve the broad-based systemic change the action plans envision. Beyond the immediate corrective steps the Department has taken, it needs to make today’s extraordinary effort tomorrow’s routine and fundamentally change its day-to-day approach to the delivery of grants and contributions. Management and staff of the Department need to continue the current focus on the fundamentals of control. Minimum standards of control must be in place for all projects. However, time and effort needed to review and assess proposals, monitor progress, assess performance, and evaluate results should vary with the amount of federal funding involved and the risks associated with the project.

11.7 HRDC has established an innovative system of tracking performance — one that allows for tracking improvements in the management and administration of grants and contributions. Ongoing performance tracking and internal audit are essential tools for assessing improvements in the management control framework.

Background and other observations

11.8 HRDC spent about \$3 billion in 1999–2000 on grants and contributions for programs such as job creation and youth employment, as well as for employment benefits and support measures. We examined in detail four of about 40 grant and contribution programs run by HRDC: the Transitional Jobs Fund and its successor the Canada Jobs Fund, Youth Internship Canada, Social Development Partnerships and the Sectoral Partnerships Initiative.

11.9 HRDC's problems in managing grants and contributions worsened in the 1990s; audits in the late 1990s show the persistence of problems identified in the past. An internal audit in 1991 and its follow-up in 1994 led to little corrective action. Management's priorities then were to implement major policy initiatives and improve service; there was not enough emphasis on maintaining essential controls while red tape was being reduced and service improved.

11.10 More work is required to determine the resources needed to deliver grant and contribution programs. The Department's corrective actions and plans are designed to strengthen capacity by providing staff with appropriate support, training, tools and systems. HRDC is also taking steps to bring in new staff at appropriate levels. It plans to analyze workload to ensure that it has adequate resources in place.

11.11 The programs we audited had made available general information about their existence. For the most part, the promotion of these programs was passive and, in the case of some programs delivered at the local level, varied significantly among regions and local offices. Information was not always provided in a way that would promote equal access to the programs.

The chapter includes the Department's general response and its responses to specific recommendations.

HRDC has responded positively to our findings and recommendations and affirmed that it will continue to sustain the progress shown to date in meeting the commitments of the Action Plan and related initiatives.



Values and Ethics in the Federal Public Sector

Chapter 12 – Main Points

12.1 Canadians expect that the federal public sector will be a world leader in promoting sound values and ethics in government. Ensuring sound values and ethics is a vital part of good governance that supports and respects fundamental democratic values.

12.2 A comprehensive and sustained dialogue with Canadians and throughout the federal public sector is required. We propose a framework for action that includes eight priorities. We suggest that action start with the following two priorities.

- Reinforce leadership for promoting ethical conduct by, for example,
 - clarifying the principle of ministerial responsibility and the responsibilities of officials; and
 - identifying the responsibilities of senior and line managers for promoting sound values and ethics.
- Re-invigorate an extensive dialogue on values and ethics that emphasizes the primacy of the principles of respect for the law, the public interest, and public service as a public trust.

12.3 Sound values and ethics are needed to maintain probity. There is a strong foundation of values and ethics in the federal public sector. This foundation should not be taken for granted. The government is taking steps to maintain sound values and ethics. Most of these measures are limited or in their preliminary stages. To increase the likelihood of success, values and ethics initiatives have to be carefully developed, implemented, and monitored by using the best available practices. A prerequisite for success is the leadership of parliamentarians, ministers and senior officials.

12.4 The federal government needs to develop an implementation plan with deadlines to address values and ethics priorities across the public sector and in federal entities. We will continue to monitor and report to Parliament on values and ethics initiatives in the public sector.

Background and other observations

12.5 We focussed on values and ethics initiatives that promote ethical decision making that is in the public interest. These initiatives would form part of a comprehensive approach to good governance in federal entities.

12.6 In May 1995 we reported to Parliament on ethics and fraud awareness in government. In 1996 the government completed *A Strong Foundation: Report of the Task Force on Public Service Values and Ethics* (Tait Report). These reports contributed to forging a consensus on the values and ethics issues that need to be addressed in the federal public service.

12.7 Ensuring ethical decision making is the responsibility of all members of the federal public sector and private sector companies as well as organizations and individuals who receive funds from or do business with the public sector.

12.8 Major changes are occurring in the way government organizes and delivers its programs. These changes include deregulation, downsizing, increasing delegation of decision making to officials in the field, contracting

out and entering into partnerships with the private sector. As well, the government is using new technologies, and its work force is becoming more mobile and diverse. As a result, the government is increasingly relying on a strong foundation of values and ethics to make decisions in the public interest.

12.9 As part of good governance efforts, several departments are implementing major values and ethics initiatives. Others do not assign a high priority to developing comprehensive values and ethics initiatives. We believe that all entities should objectively assess and report on values and ethics.

The responses of the Privy Council Office, the deputy minister co-champions for values and ethics in the public service, the Secretary of the Treasury Board and the Ethics Counsellor are included at the end of this chapter. They agree with our assessment of the initiatives under way and acknowledge that there is an important need for further work.



Assessment of Financial Management Capabilities in Departments

Chapter 13 – Main Points

13.1 Our audit assessed the financial management capabilities in five government departments against the criteria established in the Financial Management Capability Model published in April 1999. We found that in each department gaps remain between current expectations for financial management and the existing capabilities of the departments. The capabilities needed to meet current expectations are consistent with those we have described in the Control Level of the Financial Management Capability Model.

13.2 We also noted that departments are at the initial stages of developing the capabilities needed to meet the requirements of the government's Financial Information Strategy and the Modernization of Comptrollership initiative. These capabilities are consistent with the capabilities described in the Information Level of the Financial Management Capability Model.

13.3 Based on the level of financial management capabilities in the departments that we audited, the challenges to be met in improving financial management are substantial. Only one department is close to meeting all the government's current expectations and none currently have the capabilities needed to meet the goals of the Financial Information Strategy and Modernization of Comptrollership initiative. Put simply, it will be very difficult to make government more businesslike if stronger financial information is not well integrated into both day-to-day management and accountability reporting to Parliament. The achievement of these capabilities throughout government will require the strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers.

13.4 Our Office has expressed concern about the need to improve financial management in government for a number of years. Similarly, the Public Accounts Committee has noted, "There has been a common call for improvements in financial information to support government decision making." We have noted an increase in the number of initiatives being undertaken and a heightened sense of urgency to develop strong financial management capabilities. The government and the departments themselves have much to do in this area. The success of Results for Canadians — A Management Framework for the Government of Canada, the Financial Information Strategy and the Modernization of Comptrollership initiative will depend on this action.

Background and other observations

13.5 Financial management is an important component of what financial and program managers in departments and agencies do in delivering programs and services and exercising stewardship over the resources entrusted to them. An integrated and systematic approach to financial management allows managers to have the information to make sound decisions, manage risks well, and account properly for the use of public resources. Until recently, financial management has focussed on controlling budgets and processing transactions. Today's rapidly changing environment makes it urgent for the government to implement effective financial management.

13.6 We noted that departments had not implemented adequate monitoring of the effectiveness of their control frameworks. Such monitoring, together with providing assurance to senior management that control mechanisms are operating as designed, is an important component of sound management, particularly in a period of significant change that accompanies the implementation of new financial systems.

13.7 One of the most common gaps that we found in departments was the limited ability to combine or integrate financial and operational (non-financial) information. This gap has clear implications for individual

departments and the government as a whole. First, if departments cannot integrate this information, they cannot give Parliament and the Canadian public a realistic picture of how much it has actually cost to produce a given result or deliver a given level of service. Second, without integrated information, senior management cannot readily forecast the downstream costs of major decisions — for example, a decision to increase or decrease the level of service of a program.

13.8 We also found that departments had not established a clear vision or strategy for the transformations that are to take place — an essential first step in managing the changes. Similarly, departments have not determined the skills and capacities that are needed to carry out these changes or whether there is a gap between what is needed and what they currently possess. We also noted that departments had not implemented specific measures against which progress in developing strong financial management capabilities can be tracked.

The response of the Treasury Board Secretariat, on behalf of the government and the five departments audited, is included at the end of this chapter. The response indicates that the recommendations are consistent with the current improvement plans and government expectations of sound management practices.

The responses of Canadian International Development Agency, Environment Canada, Fisheries and Oceans, Health Canada and Transport Canada are included in the case studies in the chapter. The responses indicate an intent to address the gaps identified and that in many cases initiatives are already under way.



Canadian International Development Agency

Managing Contracts and Contribution Agreements

Chapter 14 – Main Points

14.1 In CIDA's Geographic programs, contracts and contribution agreements with Canadian executing agencies are used to implement development projects. Where CIDA used a competitive process for selecting executing agencies, with some exceptions the process was properly conducted. However, we observed instances where contracts did not comply with the Treasury Board Contracting Policy or the Government Contracts Regulations.

14.2 An authority framework, similar to that for the contracting process, is not in place for CIDA's contribution agreements. The terms and conditions for grants and contributions related to the Geographic programs are very general and provide no direction on how and when to use contribution agreements. They include a provision that contributions are to be approved in accordance with regular departmental procedures and authorities; however, exceptions can be dealt with internally by CIDA. Consequently, CIDA's use of contribution agreements to select executing agencies often varied from its stated internal policies or practices. CIDA can select executing agencies by means of contribution agreements, which are, in effect, the same as sole-source contracts that would not be permitted under Government Contracts Regulations. This was the case in about half of the contribution agreements we examined.

14.3 CIDA project officers attach considerable importance to monitoring the agreements under their responsibility. They commonly use monitors under contract to review and report on progress, and they insist on receiving reports from Canadian executing agencies as required.

14.4 For the Voluntary Sector program, the Canadian Partnership Branch obtains reasonable information on the financial health of its Canada-based partners. However, limited information is received on projects that were funded, on the amounts spent on them, and on results obtained. CIDA bases its funding primarily on historical levels rather than on partners' performance. More meaningful and accurate information on the Canadian Partnership Branch is needed in CIDA's Performance Report to Parliament.

Background and other observations

14.5 CIDA is responsible for managing about \$1.8 billion of Canada's international assistance. Approximately \$700 million of that amount goes to Geographic Branches for programs aimed at countries in Asia, Africa and Latin America. Most of this amount is spent through contracts and contribution agreements with third parties, referred to as executing agencies, to deliver development assistance projects. Another \$260 million goes to the Canadian Partnership Branch for grants and contributions to organizations to carry out their own aid programs.

14.6 In 1998, our Office published a report that commented on results-based management related to Geographic programs. We concluded that progress in managing for results was evident but uneven.

14.7 This audit focussed on how CIDA's Geographic Branches manage contracting and other types of agreements for goods and services, including the selection of Canadian executing agencies to deliver projects. It also examined the control framework for agreements in the Canadian Partnership Branch's Voluntary Sector program. The audit aimed to assess whether CIDA's contracting/contribution agreement processes respect Government Contracts Regulations, Treasury Board guidelines and its own policies; whether they are fair and transparent; and whether they meet operational requirements and development needs.

The Agency's responses to our recommendations are included in this chapter. The Agency accepts the recommendations and indicates the actions that it is taking or intends to take to address them.



Health Canada

First Nations Health: Follow-up

Chapter 15 – Main Points

15.1 Health Canada has initiated action to address our observations and recommendations on First Nations Health (1997 Report, Chapter 13). However, we are concerned that the Department has not yet made sufficient progress to fix many of the problems we identified. Continued and sustained effort is required to ensure that all the recommendations are fully implemented.

15.2 We found that:

- the point-of-service system, a key mechanism in the administration of pharmacy benefits and the control of prescription drug use, is now fully operational. It provides drug utilization warning messages to assist pharmacists in deciding whether to dispense prescriptions. As a result, a number of prescriptions have not been filled; and
- a pre-determination process for dental benefits, implemented nationally since 1997, has resulted in substantial savings.

15.3 However, we observed that:

- the management of contribution agreements for the delivery of community health programs is still weak;
- the management of transfer agreements still needs improvement; and
- Health Canada has not adequately monitored the drug utilization warning messages that pharmacists have overridden. Nor has it undertaken sufficient analysis of the effectiveness of the messages to determine whether any adjustments are warranted.

Background and other observations

15.4 Health Canada delivers health services and other related services to over 600 First Nations communities. It delivers them mainly through community health programs (including those transferred to community control) and the Non-Insured Health Benefits program, which covers such benefits as prescription drugs, dental care, medical transportation, and other benefits. Together, these services represented spending of just over \$1.0 billion in 1998–99.

15.5 Our 1997 audit found that Non-Insured Health Benefits program expenditures were not well managed and, in most areas, not properly controlled. In particular, significant weaknesses in the management of pharmacy benefits allowed clients to access extremely high levels of prescription drugs. We noted numerous reports of prescription drug addiction and prescription-drug-related deaths of First Nations individuals in several provinces. We also found weaknesses in the management of contribution agreements for the delivery of community health programs as well as in the management of transfer agreements.

15.6 Our follow-up found that the Department has made limited progress in ensuring that reports required under separate contribution agreements are provided. We also found that the Department's performance reports contain limited information on the status of community health programs, including outcomes achieved.

15.7 With respect to transfer agreements, we found that community health plans are still not being updated when agreements are renewed, and requirements for audits, annual reports and evaluations often are not met.

15.8 The Department developed and implemented a protocol for following up with clients, physicians, pharmacists and professional bodies on cases that suggest possible prescription drug misuse. This has had some positive impact, with some regions starting to show a decline in the number of cases of individuals accessing large amounts of prescription drugs. However, as management was unsure of the appropriateness of the approach in the absence of either client consent or specific statutory authority for the Non-Insured Health Benefits program, this intervention was stopped in May 1999. There are still cases of program clients accessing large amounts of prescription drugs, and these require follow-up.

15.9 The Department was slow to develop and incorporate an audit strategy based on an appropriate assessment of risks in its new pharmacy and dental claims-processing contract. It also failed to ensure that the contractor perform the on-site audits of pharmacies and dental providers that the contract requires. We found few such audits undertaken since December 1998 to provide assurance that expenditures claimed had been incurred for the intended purposes.

15.10 Progress to improve efficiencies in administering medical transportation benefits has been limited.

Health Canada's responses to our recommendations are included in this chapter. The Department is continuing with corrective action in response to our 1997 recommendations and has agreed to take action in response to our two new recommendations.



Follow-up of Recommendations in Previous Reports

Chapter 16 – Main Points

16.1 This chapter presents our follow-up of six audits originally published between 1995 and 1998. In the final volume of this year's Report, due to be tabled in December 2000, we will publish an additional follow-up chapter and provide a general conclusion of the government's progress in addressing the concerns we raised in previous reports.

16.2 The policy and legislative environment of the financial services sector has changed considerably since our 1995 and 1997 Reports. Canada's regulatory system for this sector is sound and the Office of the Superintendent of Financial Institutions (OSFI) has taken many satisfactory steps to deal with our previous recommendations. However, with all the expected changes that will affect the financial services sector, OSFI's ability to supervise and regulate could be challenged in the short term. Furthermore, in this changing environment, recruiting and retaining employees will become a bigger challenge.

16.3 Although progress has been slow on addressing the recommendations of our November 1995 chapter — *Revolving Funds in the Parliamentary System: Financial Management, Accountability and Audit* — recent initiatives by the Treasury Board Secretariat substantially address our recommendations.

16.4 The Canada Industrial Relations Board, formerly known as the Canada Labour Relations Board, has made progress in addressing our concerns about financial control problems. Payment to former members was the single biggest expenditure of the Canada Industrial Relations Board's \$1.7 million in transition costs. We also observed that the government, as a whole, has not taken adequate action to improve the accountability framework governing travel and hospitality expenditures of senior Governor in Council appointees.

16.5 National Defence has made significant progress in addressing its lack of plans and priorities for its capital acquisition program. The management of individual major capital projects has also improved. The Department has gone beyond its original commitments to make improvements. Nevertheless, officials estimate that the Department is still about \$750 million a year short of the amount needed to modernize and maintain readiness. The "hard choices" referred to in 1998 have been identified, but not all of them have been made.



Other Audit Observations

Chapter 17 – Main Points

17.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

17.2 The “Other Audit Observations” chapter fulfils a special role in the Reports. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments, or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

17.3 The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

17.4 Observations reported in this chapter cover the following:

- Space was leased at an excessive cost for a Canada Business Service Centre in Sydney, Nova Scotia that was never operated as intended;
- Inappropriate netting of benefit payments obscures the true size of government revenues and expenditures and complicates the evaluation of fiscal measures;
- Government programs and spending for Parc Downsview Park Inc. lack clear parliamentary authority;
- Non-recovery of expenditures for safe drinking water on Indian reserves affected by Manitoba Hydro development; and
- Significant risk that a \$113 million relocation project will not adequately address the needs of the Innu.

17.5 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.



Governance of Crown Corporations

Chapter 18 – Main Points

18.1 The management of Crown corporations has improved since the *Financial Administration Act* was amended in 1984 to strengthen their control and accountability framework. Nevertheless, further improvement is needed in some important areas like strategic and corporate planning and the measurement and reporting of performance. We found a need for special attention in three areas that are central to the way Crown corporations are governed:

- Boards of directors of Crown corporations need to be strengthened. They reflect Canada’s diversity but lack other key skills and capabilities that are needed to function effectively and to carry out their important responsibilities under the *Financial Administration Act* for the affairs of the corporation. Corporations need to better define their requirements for skills and capabilities and communicate them to the government; the government needs to act on those requirements. Boards of directors also need to be more engaged in the selection of their chair as well as the corporation’s chief executive officer (CEO). Without meaningful board involvement in the selection of the chief executive officer, his or her accountability to the board is weakened and corporate governance as a whole suffers.
- Audit committees in Crown corporations play a crucial role in financial reporting, risk management, and internal control. They are the “engine” of the board of directors. Yet half of the audit committees we examined were operating below an effective level. Serious weaknesses in an audit committee can undermine the overall strength of the board.
- The government has a limited capacity for reviewing and challenging Crown corporation corporate plans as a basis for approving them. Corporate plans set out the strategic direction of a Crown corporation and are intended to be the cornerstone of the Crown corporation control and accountability framework under the *Financial Administration Act*. The government needs to strengthen its capacity to review and challenge these plans since, once approved, they are the basis for holding Crown corporations accountable for conforming to government policy and for their overall performance. Furthermore, there is a need for a more systematic and regular review of the relevance of Crown corporation mandates.

18.2 Weaknesses in all of these areas impede the successful implementation of Part X of the *Financial Administration Act* and the quality of Crown corporation governance. They have been raised many times before, in Auditor General reports and other external studies and reports, but the weaknesses remain. Crown corporation CEOs and chairs view the resolution of these issues as critical and they need to be addressed with urgency. Other industrialized countries have moved ahead of Canada in these areas of Crown corporation governance.

18.3 Corporate governance refers to the process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively. It is critical that a Crown corporation, as a public sector body, be governed well if taxpayers’ money is to be well spent. Good corporate governance is important to maximize performance, prevent financial losses and help to achieve the corporate mandate. But it is in times of difficulty, turbulence and change that good governance is most critical.

Background and other observations

18.4 Crown corporations are distinct legal entities wholly owned by the government. They operate in many sectors, including transportation, agriculture and culture. They have more autonomy to manage than most other

government entities so they can operate in a more commercial manner. A board of directors oversees the management of each corporation and holds management responsible for the corporation's performance. The government retains power and influence over Crown corporations in areas like appointments, remuneration for chief executive officers and directors, and approval of plans and budgets.

18.5 Crown corporations account for a significant portion of government activity. There are currently 41 federal Crown corporations (not including subsidiaries), employing 70,000 people. In aggregate (excluding the Bank of Canada), they manage \$68 billion in assets and \$61 billion in liabilities. While Crown corporations represent a significant opportunity to achieve public policy and other goals and to generate revenue, they also represent significant exposure to potential financial losses and other risks.

18.6 In addition to our continuing work as auditors and examiners of most Crown corporations, we looked in detail at a representative group of 15 Crown corporations. We also compared Canadian Crown corporations with state-owned enterprises elsewhere, and used the results of other research, studies, audits and roundtables to support our findings. In addition, we summarized the results of special examinations — a type of value-for-money audit of Crown corporations — carried out between 1984 and 2000.

In view of the fact that many of the recommendations deal with Governor in Council discretion, no detailed responses to the recommendations were made. Overall, the Privy Council Office states that the government has made strides in a number of corporate governance areas, and is committed to examining measures to address areas needing improvement and to ultimately strengthening governance in Crown corporations. The Privy Council Office also states that it is paramount to ensure that appointments to Crown corporations result in strong boards of directors, and that the appointment process for Crown corporations be inclusive of all interested parties, bearing in mind that appointments remain at the discretion of the government.

Reaction from Crown corporation chairs and CEOs indicate that, for the most part, they agree with the recommendations directed specifically at them.



Reporting Performance to Parliament

Progress Too Slow

Chapter 19 – Main Points

19.1 Federal departments and agencies have made some progress in reporting on their performance to Parliament, but we are disappointed at its present pace. Continued at this rate, it would take too long for good reporting to become routine. We recognize that reporting on performance is not easy, and it takes time. Still, we believe that the effort deserves more attention: members of Parliament need information on what Canadians are getting for their taxes in order to hold the government to account. Good performance reporting has become an essential part of modern democratic systems.

19.2 To that end, it may be time for legislation. Several jurisdictions in Canada now have legislation requiring government to report on its performance to the legislature. Legislation highlights the importance of good reporting and puts it on a more permanent and stable footing.

19.3 Our examination of the Estimates documents — reports on plans and priorities and departmental performance reports — of 47 departments and agencies over the past four to five years found the following:

- While there has been progress, few departments set out concrete statements of what they expect to achieve and then report back specifically against those expectations.
- In reporting what they have accomplished, departments focus too much on listing activities and outputs and too little on linking them to and reporting on the intended outcomes.
- Reporting makes too little use of evaluation findings on the results that activities are accomplishing and on how programs are contributing to outcomes.
- There is little linking of financial and non-financial performance information; most accomplishments are not costed.
- Performance reports lack balance. Most departments report only the “good news” and make little mention of performance that did not meet expectations. As members of Parliament have said repeatedly, reports that present only good news are not credible.

19.4 We noted that the Treasury Board Secretariat has provided leadership for reporting. And we did find pockets of good reporting and a number of strengths in the present regime of reporting. Nevertheless, after five years of experimenting, departmental reporting overall has only improved modestly.

19.5 Three factors stand out as contributing to the current weak state of reporting:

- basic principles of good reporting are not understood or applied;
- performance reporting has political dimensions; and
- there are few incentives for good reporting or sanctions for poor reporting.

19.6 In addition to considering legislation, in our view the government needs to make the following changes in the present reporting regime:

- reach agreement on principles for reporting performance information;

- give more attention to the right incentives for incorporating evidence-based approaches into reporting;
- ensure stronger oversight by the Treasury Board Secretariat; and
- seek to enhance the involvement of parliamentarians in reviewing performance plans and reports.

Background and other observations

19.7 Federal departments submit performance reports to Parliament in the fall every year, outlining what they have accomplished. The reports are subject to consideration by their respective parliamentary standing committees. Review of the reports at that time would enable parliamentary committees to make recommendations for the upcoming spending decisions to be announced by the government later, in the Budget. In the spring, after the Budget, departments submit reports on their plans and priorities, describing what they are setting out to achieve in the upcoming year and beyond.

19.8 In 1997 we first reported on this new regime for reporting to Parliament. We found that a good start had been made and that the basic framework used for reporting was sound.

19.9 Credible reporting on performance has a number of benefits: it can enhance accountability and trust in government, provide information for improved programs and services and better parliamentary scrutiny of them, and serve as an incentive for departments and agencies to manage for the results they have set out to achieve.

19.10 On two occasions in recent years, the Standing Committee on Procedure and House Affairs has issued reports with recommendations on ways to provide for greater involvement of parliamentarians in the review of the Estimates.

19.11 The President of the Treasury Board annually tables, along with the departmental performance reports, a report in Parliament on government performance measurement, reporting and results-based management. In recent years it has provided useful performance information on collective results — areas where several departments or several governments are working collectively toward a result.

19.12 The Treasury Board Secretariat has taken important steps toward more electronic reporting. It needs to encourage departments to make greater use of this vehicle, and gather and share good practices.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat has responded positively to our chapter and recommendations therein. The Secretariat accepts our recommendations and indicates the actions that, where appropriate, it is taking or intends to take to address them.



Managing Departments for Results and Managing Horizontal Issues for Results

Chapter 20 – Main Points

20.1 In our examination of five large federal departments and 10 programs, we found that several departments have made tangible efforts to focus on results. There was evidence of commitment and support by senior management, extensive planning activities, identification of key performance indicators and some measuring against them.

20.2 However, we found that only 4 of the 10 programs have information on results that is used routinely. In most departments we examined, the persistent state of planning for results — rather than actually managing for results — has meant that progress in using information on results has been limited since we reported on this issue in 1997. It is time for departments to move beyond planning. There is a need for more widespread measurement of the results they accomplish and use of that information to improve programs.

20.3 The government needs to ensure that the evaluation function plays a more central role in its move toward managing for results. The evaluation capacity in many departments has atrophied at a time when more effort, not less, is needed to measure the results of programs.

20.4 More and more, the government needs to manage initiatives that span two or more federal departments. “Horizontal” issues like the Federal Disability Agenda are often key priorities of government. Our study of three horizontal issues found that, like many departmental programs we audited, they were not being managed for results.

20.5 Over the past several years, the government has been clear about the importance of making results central to good management and accountability, and this vision is increasingly being accepted across government. However, bringing that recognition into practice will require central agencies to play a stronger role. They need to provide encouragement and support for departments to move beyond merely planning for results. We found the Treasury Board Secretariat’s leadership too limited and its support too dispersed to be of real help to departments trying to manage for results. Nor does the Secretariat have a strategy for dealing with horizontal issues. It needs a strategic approach to these issues, given their growing presence in government.

Background and other observations

20.6 Managing for results allows managers to make changes once they know what is working and what is not. It represents a significant difference in the way government programs are managed. Managers can then pay more attention to finding out whether programs are meeting their objectives and less to only carrying out activities or setting up structures and processes.

20.7 The concept of managing for results is now widely accepted across government. As a first step in putting it into practice, most departments had to realign their management structures and processes according to the results they were seeking, and not to their programs or activities. Each department had to establish department-wide objectives and think through how it wanted to structure itself in terms of the results it expected. Most of the departments we audited were engaged in significant efforts to plan how they would manage for results.

20.8 In managing a horizontal issue for results, it is critical to have a co-ordinating function that is supported by senior management (particularly in a lead department) and that has enough resources to do the job.

20.9 Departments receive limited practical guidance on managing for results, and there is little sharing of experience. They need more encouragement to move beyond planning for results; there is also a need to identify champions.

20.10 While managing for results presents challenges, there are known, practical ways to deal with them. They require that people embrace the idea of learning from experience — which includes learning from mistakes. It involves bringing more rigour to understanding past experiences and then adjusting practices in light of this learning.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat accepts our recommendations and indicates the actions that it is taking or intends to take to address them.



Post-Secondary Recruitment Program of the Federal Public Service

Chapter 21 – Main Points

21.1 Our review of the Post-Secondary Recruitment program in the federal public service found that the Public Service Commission of Canada is recruiting qualified candidates. But there are too few of them given the significant number of public service executives, professionals and managers who will be eligible to retire in the near future. The government has to immediately address the recruitment issue so that it can continue to deliver programs and provide services of quality to Canadians.

21.2 We found weaknesses in the program's efficiency and effectiveness in the following areas:

- Forecasting of recruitment needs is not clearly spelled out. Without a clear idea of the number and type of employees needed, it is difficult to establish clear recruitment levels and develop appropriate recruitment strategies.
- The recruitment levels under the program have not been met consistently.
- In light of the increased competition for university graduates, the Commission needs to be a more aggressive recruiter of graduates. There has to be better promotion of the public service as a career choice, increased visibility on campus and improvement in scheduling and timeliness of recruitment.
- Very few departments participate in the program, which limits its capacity to renew the public service.
- The Commission does not establish and manage inventories of qualified candidates for departments.
- The program and its activities have not been evaluated consistently and systematically to improve their effectiveness and efficiency. As a result, it makes it difficult for the government to take appropriate corrective action on recruitment.
- Reporting of results is not adequate.

21.3 We are concerned about the government's ability to address the recruitment challenge.

Background and other observations

21.4 The public service has become significantly older. Seventy percent of executives could retire by 2008, and the feeder groups, the people who could eventually replace them, have a similar retirement profile. Public servants under 35 years of age are underrepresented.

21.5 For existing senior executives, it took an average of 10 years for them to move from a professional entry level to an executive level. Recruitment has, therefore, become imperative to ensure a well-functioning public service in the future.

21.6 The public service has changed and requires a higher proportion of knowledge workers than in the past. Today, these workers constitute 55 percent of public servants.

21.7 Recruitment has been an issue in the public service for at least 10 years. Many reports, and more recently the 1999 Speech from the Throne, have reported the need to recruit for the public service because of demographics and other factors, such as increased competition for qualified candidates.

21.8 It is recognized that an effective and non-partisan public service is essential to the strong functioning of a democratic country. To remain a vibrant institution, the public service must be able to recruit and retain well-qualified employees.

21.9 The government recognizes that recruitment in the public service is a priority. In his March 2000 annual report, the Clerk of the Privy Council stated the following: “We need to start recruiting people now so that we have the time to groom and nurture skills and so new recruits will have time to benefit from the depth of experience and knowledge of public servants across the country.”

21.10 We are concerned about the government’s ability to address the urgent challenge of recruitment for the years ahead.

The responses of the Treasury Board Secretariat, on behalf of the government and the departments audited, and of the Public Service Commission are included at the end of this chapter. The responses recognize the importance of recruitment and indicate plans to address the issues identified.



Development of the Universal Classification Standard

A Follow-up

Chapter 22 – Main Points

22.1 The Treasury Board Secretariat has made major progress in implementing our 1996 audit recommendation on the development of the Universal Classification Standard for the federal public service. This project is fundamental to the reform of human resource management, particularly for staffing and compensation. It is a monumental and highly complex undertaking that requires much time. The present system is outdated and no longer meets the requirements of today's public service and tomorrow's.

22.2 In the last few years, the Secretariat has designed a standard intended to measure the content of diverse types of work in the public service, and has subjected it to a series of tests in departments. Since 1998, departments have been writing new work descriptions for all positions and evaluating them against the Standard. In the course of this project, the Treasury Board Secretariat has developed and issued guides and methodologies based on best practices in job evaluation.

22.3 Despite these achievements, the government still has to address significant issues:

- The Treasury Board Secretariat needs to ensure that the new Standard is being applied appropriately before fully converting to it.
- Departments need to ensure that their work descriptions are accurate and their position evaluation results valid and adequate.
- The Secretariat needs to perform further testing, based on accurate and up-to-date evaluation data, to establish the extent to which the Standard meets its stated objectives to be universal and gender-neutral.
- The government needs to ensure that reasonable and realistic financial resources are available to convert to the new Standard.

Background and other observations

22.4 A classification standard is a measuring tool for determining the relative value of positions in an organization. The Universal Classification Standard, now being developed, must be capable of evaluating all positions in the public service on the basis of work content. The results will be used to establish a hierarchy of positions and the compensation that reflects their requirements.

22.5 The Standard will apply to all Public Service employees for whom the Treasury Board is the employer, with the exception of the executive group. At August 2000, there were some 150,000 positions in 72 separate occupational groups, in some 65 departments and agencies subject to the new classification system. The development of a new classification standard has to meet the requirements of the *Canadian Human Rights Act* on equal pay for work of equal value.

22.6 The existing classification standards do not reflect today's emphasis on serving the public and managing for results. They also do not make reference to the fact that public servants work more and more in partnership with other levels of government and the private sector.

22.7 The development of a new classification standard was launched in 1991 as part of the Public Service 2000 initiative. In 1996, we reported serious deficiencies (May 1996 Report, Chapter 5). Pursuant to our recommendations and the findings of its own review, the government began to improve the Universal Classification Standard. This follow-up chapter is a progress report on the initiative to date.

The Treasury Board Secretariat has responded positively to our findings and recommendations and has affirmed that progress will continue to meet the Universal Classification Standard objectives.



Information Technology

Acquisition of Goods and Services

Chapter 23 – Main Points

23.1 In auditing acquisition activities (procurement) for large information technology projects in the government, we found that two recent acquisitions followed some essential elements of a procurement approach and project management framework designed to improve large technology projects. The approach emphasizes the benefits to be derived from a project, rather than focussing on a specific solution to a business problem. Although both projects are still in the construction phase, they have progressed and delivered as planned. While full implementation and deployment of the new systems are not assured, the results to date are encouraging.

23.2 We found, however, that the acquisition activities still spanned 18 months or more. The government needs to improve the timeliness of those activities to adequately support its objective of putting government on-line by 2004.

23.3 We also examined the acquisition process for the routine supply of microcomputers, equipment for local area networks and software. We found that the government has yet to finish replacing its discontinued method of supply for routine, low-volume purchases of software licences and software solution services. As a result, user departments and agencies do not have a ready, prenegotiated means for low-value purchases of certain software products and services.

23.4 We also found that the replacement method as developed thus far is inadequate, and there is still a risk that the government will continue to acquire installed bases of software on a piecemeal and non-competitive basis. Where user departments and agencies have done so, the government can become vulnerable to the filing of complaints with the Canadian International Trade Tribunal in relation to contracts that extend the use of the software to the entire department or involve department-wide maintenance and upgrade of the software.

23.5 Acquiring software licences and software solution services appropriately continues to be a challenge. The government needs to consider a strategy for acquiring software as a technology investment.

Background and other observations

23.6 Our data analysis showed that the significant expenditures involved in the acquisition of information technology (IT) goods and services have been on the rise. We estimated that in 1998–99, spending on IT amounted to about \$3.4 billion, including salary costs.

23.7 The method of supply for routine, low-volume purchases of microcomputers and products related to local area networks has merit and adds value to the acquisition process. Nevertheless, in our view there are opportunities for cost savings of about \$10 million a year by taking more advantage of consolidated purchases.

23.8 Our audit looked at eight user departments and agencies. We conducted a test of their compliance with the procurement authority delegated to them. We found a few minor deviations but no indication of blatant or widespread misuse of delegated authority.

23.9 Recent determinations by the Canadian International Trade Tribunal (CITT) were the main reason for changing the standing offer method of supply for routine, low-volume purchases of software licences and software solution services. Moreover, even though CITT cases have been few, government users and the IT community have indicated that they have generated intense scrutiny of all technology acquisitions in government in order to

avoid potential complaints to the Tribunal. In our view, there is a need to better respect the government's contracting objectives — meeting operational requirements with due regard to value for money while also respecting the principle of open and fair competition by complying with government regulations and trade agreements.

The government is generally supportive of the recommendations contained in the chapter.



Federal Health and Safety Regulatory Programs

Chapter 24 – Main Points

24.1 The overall objective of health and safety regulatory programs is to proactively protect Canadians from risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences.

24.2 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. We estimate that in 1999–2000 the regulatory programs administered by these organizations spent about \$1.2 billion and employed some 12,000 people. They administer about 85 Acts and 250 regulations. Their objectives range from controlling toxic chemicals to maintaining the safety of food, drugs and nuclear power plants.

24.3 The objective of the government’s regulatory policy is to promote the design and implementation of effective regulatory programs. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

24.4 Over the past decade, our audits of federal health and safety regulatory programs have found many instances where the regulatory authorities have not met the expectations of the government’s regulatory policy. While effectiveness cannot be judged solely on the basis of adherence or lack of adherence to the policy, well structured programs increase cost effectiveness and reduce the risk of regulatory failure.

24.5 Improving the structure and implementation of federal health and safety programs will require action government-wide and by the responsible regulatory authorities. In particular, we emphasize the need to ensure the following:

- the government explains to Canadians and the federal regulatory and inspection community the priorities for health and safety regulatory programs, particularly the balance the government has reached between the objective of protecting Canadians, addressing budget concerns and meeting economic objectives;
- reliable information is available on the level of risk and the extent to which it is and can be controlled;
- based on priorities determined by risk assessment, regulatory authorities have sufficient financial and human resources;
- the government identifies major health and safety objectives that can only be achieved through interdepartmental co-operation, and authorities assess officials on the achievement of these objectives; and
- the government annually submits reports to Parliament on the overall effectiveness of health and safety regulatory programs, including reports by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

Background and other observations

24.6 We undertook this audit to identify the following:

- major trends and challenges faced by health and safety regulatory authorities;
- patterns of recurring strengths and weaknesses in structure and implementation; and
- measures that could be taken to make significant improvements in the structure and implementation of regulatory programs.

24.7 We used key elements of the government's regulatory policy as a basis for organizing information on patterns of strengths and weaknesses. Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

24.8 Canadians are concerned about health and safety risks. Crises or regulatory failures heighten these concerns. However, the government cannot eliminate all risks. Canadians need to be provided with understandable information on health and safety risks and consulted on the choices to be made.

24.9 The public's confidence in the government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises, for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission). The use of independent expert advisory committees could be expanded to provide advice and enhance the credibility of the regulatory effort.

24.10 Under the Constitution and in practice, the federal government often shares responsibility for the protection of health and safety with the provinces. Co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature, and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of a national health and safety regulatory plan.

The Privy Council Office states that while the government believes its regulatory policy is sound, it shares our Office's concern. It recognizes the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs.



Canadian Food Inspection Agency

Food Inspection Programs

Chapter 25 – Main Points

25.1 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's food inspection programs are contributing to the safety of the Canadian food supply.

25.2 Since its creation in April 1997, the Agency has undertaken a number of initiatives to improve the efficiency and effectiveness of federal food inspection — a major reason for its creation. These initiatives include the development of an Integrated Inspection System (IIS) to promote greater consistency between inspection programs; and the introduction of an approach based on the principles of hazard analysis and critical control points (HACCP). The HACCP-based approach is a tool to improve the safety of food through the assessment of hazards and the establishment of control systems that focus on prevention, rather than mainly the reliance on end-product testing.

25.3 While progress has been varied and in a few cases faltered, the Agency has made progress in many of the initiatives. We noted that the Agency has had difficulty in establishing a process to support risk-based resourcing. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risk. Such a process is needed particularly in the imported food sector, which is worth \$15 billion and is growing, and the non-federally registered sector, which represents almost one-half of the food-processing industry. We also noted in the non-federally registered sector that the Agency has changed its inspection approach without adequately assessing overall risks and the options available for managing the sector. Also of concern is the lack of a formal strategy for the implementation of the HACCP-based approach and the setbacks encountered in the IIS.

25.4 We identified problems with the Agency's compliance activities. We examined 21 inspection files from establishments that had issued food recalls or had been prosecuted in the last two years. In 1999–2000, the Agency participated in 243 recalls and had 59 successful prosecutions. We found that in 16 cases, the same or similar problem persisted for many months and in some cases, years. The compliance actions taken were not sufficient to achieve the Agency's goal of timely correction of the compliance problem either because of the limitations in the legislation or a failure by the inspector to take more serious compliance action.

25.5 Measuring the success of initiatives and more broadly the performance of the Agency in achieving its goals is also a concern. We noted that the Agency had not set expectations or measured performance to determine if its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

Background and other observations

25.6 The Canadian Food Inspection Agency is the result of the amalgamation of food safety and inspection programs from three federal departments : Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. It now has some 4,400 employees across the country and manages expenditures of \$416 million. The Agency's main activities focus on inspecting the food supply, but it also conducts activities related to animal health and plant protection.

25.7 The Agency is not solely responsible for food safety. It shares this responsibility with other federal departments and provincial, territorial and municipal authorities. Industry and consumers also play an important role. Health Canada is responsible for establishing policies and standards relating to the safety and nutritional quality of food. The Agency is responsible for delivering federal inspection programs that enforce these policies and standards.

25.8 The Agency operates in a complex environment created by a number of factors, including changes in food risks, technology, inspection methodology, international requirements, consumer trends and consumer perception.

25.9 Our audit focussed on assessing how the Agency manages food inspection to reduce risks to food safety.

25.10 We found that a formal strategy for the implementation of the HACCP-based approach is needed. A plan for the transition period, including considering how to manage resources during the transition period needs to be developed. Further, insufficient information has been collected to allow the Agency to measure the success of implementing the HACCP-based approach in improving food safety. It could take many years to develop and implement the further redesign of the HACCP-based approach in the meat industry. This redesign would require industry to perform ante- and post-mortem detection with continuous government monitoring and oversight in the beef and pork industries. It could also take a long time to introduce a pathogen-reduction effort in these industries. This situation is in contrast with the important progress made in the poultry industry.

25.11 The Agency is lacking important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply. This is complicated by the fact that the Agency is not responsible for gathering some of the information. However, without this information, it is more difficult to manage risks to food safety and measure the success of Agency initiatives and its contribution to the safety of the food supply.

25.12 The Agency has consulted the provinces, industry and the public on some, but not all, significant initiatives and issues. As a result, the Agency has missed opportunities for broad public debate on important questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.

The Canadian Food Inspection Agency's responses to our recommendations are included in the chapter. The Agency accepts all but one of our recommendations and has indicated a number of actions it is taking or intends to take to address them. The Agency disagrees with our recommendation relating to the non-federally registered sector. Its position is reflected in its response following paragraph 25.82.



Health Canada

Regulatory Regime of Biologics

Chapter 26 – Main Points

26.1 Our audit of Health Canada’s regulatory regime for biologics found that the Department is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biologics (blood and blood products, cells, tissues and organs of human or animal origin, vaccines and other biological drugs). Our work focusses on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

26.2 The Department faces important challenges. It needs to do the following:

- to establish more formal guidance to determine the most appropriate regulatory approach for a given situation;
- to maintain the currency of regulations;
- to obtain sufficiently qualified staff to deal with the rapid technological advances in biologics; and
- to implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events.

26.3 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics. Though the science for xenotransplantation (the use of live, non-human animal cells, tissues and organs in humans) is not perfected, the Department is being proactive in planning a regulatory regime for xenografts. However, many delays have characterized the implementation of the regulatory regime for transplantation of human tissues and organs. Transplants of these types have been performed in hospitals for a number of years.

Background and other observations

26.4 Health Canada is responsible for regulating biologics under the provisions of the *Food and Drugs Act* and Regulations. Accordingly, the Department’s objective is to ensure that biologics available to Canadians are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals does much of this work with several other bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. As well, the Population and Public Health Branch conducts some surveillance activities.

26.5 The safety of biologics is an important aspect of public health. Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

26.6 The Department follows a traditional approach with prescriptive regulations to regulate most biologics. This framework is well-established and offers some benefits. However, Health Canada believes that the framework is not sufficiently flexible to deal with emerging products and other technological advances in

biologics. Therefore, the Department is moving toward adopting a standards-based regulatory approach for blood, tissues and organs, and xenografts. Under this approach, third-party standards development organizations develop standards with Health Canada and other interested parties.

26.7 The Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. While this approach appears to offer some benefits including more flexibility to deal with rapid changes in technology, there are some important issues that need to be addressed. The Department needs to ensure that compliance is verified and that accountability is assured for regulations referencing its own technical standards. The Department needs to apply lessons learned from the implementation of the Semen Regulations to future standards-based regulatory frameworks, as applicable.

Health Canada's responses to our recommendations are included in this chapter. The Department agrees with the recommendations and indicates the actions that it is taking or intends to take to address them.



Canadian Nuclear Safety Commission

Power Reactor Regulation

Chapter 27 – Main Points

27.1 The Canadian Nuclear Safety Commission (CNSC) needs to improve its regulatory regime for power reactors to ensure that it continues to protect the health and safety of Canadians.

27.2 While the CNSC continuously monitors the compliance of power reactor licensees with regulatory requirements, its regulatory activities are not based on a rigorous, well-documented system of risk analysis and the ratings it assigns for regulatory performance (acceptable, conditionally acceptable or unacceptable) are not clear. In addition, CNSC's compliance and enforcement system is not yet complete. As a result, it cannot adequately demonstrate that it is achieving its safety objectives for the regulation of power reactors.

27.3 Like other nuclear regulators, CNSC faces significant difficulties in recruiting and retaining qualified staff. Combined with its current regulatory regime, which relies heavily on the expertise and judgment of staff, the lack of human resource capacity could impact its ability to function adequately in the future.

Background and other observations

27.4 The *Nuclear Safety and Control Act* came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission to replace the Atomic Energy Control Board. CNSC is responsible for regulating the use of nuclear energy in Canada to protect health, safety, security and the environment. Our audit focussed on the regulatory activities related to power reactor licensing and regulation.

27.5 The CNSC has 440 staff. Its headquarters are in Ottawa. It maintains a site project office at each of the power reactor stations, where its staff monitor licensee compliance with regulations and the licence conditions. In fiscal year 2000, CNSC had total costs of \$59 million.

27.6 In July 1999, of some 440 power reactors in the world, 22 were in Canada — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

The Canadian Nuclear Safety Commission agrees with our recommendations and is taking action to address them.



Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

Chapter 28 – Main Points

28.1 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report.

28.2 Since our 1996 audit on animal and plant health, a number of initiatives have been undertaken within the Canadian Food Inspection Agency to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

28.3 Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

28.4 The National Energy Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.



Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

Chapter 29 – Main Points

29.1 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Report provides Canadians with an annual statistical summary of the number and value of contracts let pursuant to the Government Contracts Regulations (GCR) and the government's contracting policy. The value of the reported contracts in 1998 accounted for \$13.4 billion (including NATO Flying Training in Canada Program of \$2.99 billion) or more than one third of the \$35.7 billion cost of running the government.

29.2 The systems for gathering data for the Report capture most of what is required and have the potential to provide the base for a good and useful document. However, our audit found significant deficiencies in the Report with respect to validity, reliability, transparency and relevance. (We define these terms later.)

29.3 Specifically, the deficiencies that we noted in the 1998 Report include the following:

- **Validity.** Transactions relating to contract amendments, standing offers and credit card payments are included with information on primary contracting activities. The information on these transactions should be segregated in the Report.
- **Reliability.** The audit found that information on the number and dollar value of contracts was incomplete. For example, the Report did not include at least \$320 million worth of contracts that should have been reported. We also found that information on the classification of contracts was unreliable.
- **Transparency.** The 1998 Report does not provide enough explanatory information or links to it to enable the unfamiliar reader to understand how the Report was prepared and the meaning of key terms used in presenting the data.
- **Relevance.** As was the case for previous reports, the 1998 Report was not published until more than a year after the end of the reporting period, thereby making its relevance questionable. In addition, it does not contain enough information in particular areas to meet the needs of the public and parliamentarians. These needs have been identified by parliamentary committees.

29.4 The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Background and other observations

29.5 The need for fairly presented and relevant statistical information on the government's contracting activities has been a long-standing concern of the Office of the Auditor General. We first raised the issue in 1982 and more recently in reports in 1991 and 1997. Concerns about the lack of appropriate information on contracting were major elements of the 1995 and 1997 Reports of the Standing Committee of the House of Commons on Government Operations. In 1999, the Public Accounts Committee also expressed concerns about the information and recommended that future reports be audited.

29.6 We recommend that the Treasury Board Secretariat improve the usefulness of the Annual Contracting Activity Report by segregating information on amendments, standing offers and credit card payments. We also

recommend that the Report provide the reasons for directing a contract to a particular supplier. The Treasury Board Secretariat should also develop quality assurance systems for the data used to develop the Report. In addition, the Secretariat needs to direct attention to resolving the conceptual and presentation issues that we have identified. Major improvements can be achieved with some additional effort and attention to statistical reporting by the procurement community.

As noted in “Subsequent Event” at the end of the chapter (paragraph 29.76), the Treasury Board Secretariat has already taken steps to address a number of our concerns. The Secretariat’s responses to our recommendations indicate that it is actively addressing some and giving what it believes to be appropriate consideration to the rest.



Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

Chapter 30 – Main Points

30.1 Fisheries and Oceans is managing the salmon farming industry on the basis that it poses an overall low risk to wild salmon and habitat. However, the Department is not fully meeting its legislative obligations under the *Fisheries Act* to protect wild Pacific salmon stocks and habitat from the effects of salmon farming. We found that the Department:

- is not fully carrying out its current regulatory responsibilities to enforce the *Fisheries Act* with respect to salmon farming operations;
- is engaged in research and is working with the Province of British Columbia (B.C.) to develop a regulatory framework for salmon farming, but there are shortfalls in research and monitoring to assess the effects of salmon farming operations; and
- has not put in place a formal plan for managing risks and for assessing the potential cumulative environmental effects of proposals for new sites, should the decision be made to expand the industry.

30.2 There is an urgent need for the Department to address these shortcomings in consultations with the Province if their goal of ensuring the co-existence of sustainable salmon fishing with the farming industry is to be achieved. The Department has recently obtained additional funds, which it plans to use to respond to industry and public concerns. Some projects include habitat management, further study on the environmental effects of aquaculture operations on fish habitat, and the effects of farmed and wild stock interaction. The Department has also notified the Province of B.C. and the salmon farming industry that it intends to begin assessing all fish farm operations to ensure that they are in compliance with the *Fisheries Act*.

Background and other observations

30.3 This is our third audit since 1997 of the Department's Pacific salmon management programs. In previous chapters we reported on habitat protection and management of the salmon fisheries. We found that loss of salmon habitat continued and that some wild salmon stocks were declining. Salmon farming has the potential to create additional stress on wild salmon stocks over time, especially if the industry expands. We found that the Department has not developed a plan to evaluate and manage the risks in the long term.

30.4 Reaching conclusions on the effects of salmon farming is difficult because there have been few scientific studies that apply directly to the B.C. situation. Recent scientific evidence of escaped Atlantic salmon reproducing in B.C. streams, and the potential for expansion of the industry, are raising new questions regarding effects on wild salmon stocks, including the cumulative effects on the environment and fisheries resources.

30.5 Atlantic salmon are raised initially in freshwater hatcheries, and at the juvenile stage they are transferred to open net pens in marine coastal waters in B.C. to complete their growth. They are harvested as adult salmon. It is while they are being reared in open net pens that possible interactions with wild salmon and their habitat can occur. Furthermore, open net pens are vulnerable to damage, which can result in escapes of farmed salmon.

The Department concurs with the contents of the chapter.



Fisheries and Oceans

Fleet Management

Chapter 31 – Main Points

31.1 In our opinion, Fisheries and Oceans is not managing its fleet in a cost-effective manner. There is a wide variation in practices and procedures employed by the five regions where the fleet operations are controlled. With each region having its own operating practices, procedures and support, the Department is missing opportunities for greater flexibility in sharing resources and for better productivity in providing the fleet service.

31.2 We observed the following problems in the key management practices that are important to a cost-effective fleet activity:

- The Department has not established clear, concrete, realistic and agreed-upon performance expectations for the fleet.
- The funding horizon has been only one year, even though the fleet is a capital-intensive activity with high fixed costs.
- There is a lack of service accords clearly establishing the performance and funding arrangements between the Department's programs and the fleet.
- Internal budgetary processes do not support accountability for the fleet activity.
- Information systems are not integrated and do not provide managers with reliable, timely information on performance and cost.
- The method of allocating costs to programs discourages vessel use.
- The fleet does not employ a life cycle approach to managing its vessels.
- The fleet is not adequately managing its single largest operating expenditure, its human resources.
- Shore-based support is too large, given the current size of the fleet.
- There are weaknesses in stewardship reporting to Parliament.

31.3 As the Department addresses these issues in an order of priority (they cannot all be addressed at once), it also needs to consider a longer-term strategy to renew its aging fleet. Such a strategy would need to take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the services needed.

Background and other observations

31.4 At 31 March 2000, the fleet consisted of 144 vessels (122 were operational for some period during 1999–2000), including vessels as small as an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. The fleet plays a key role in providing services such as aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. It also supports the Department in the conduct of fisheries science and enforcement, hydrography, oceanography and other marine sciences.

31.5 In 1999–2000, Fisheries and Oceans spent approximately \$229 million for operations, maintenance and capital replacement of the fleet. In addition, an estimated \$52 million was spent on shore-based support.

31.6 The fleet's human resources are its single largest operating expense. At 1 April 2000, there were 756 officers and 1,308 crew assigned to vessels, although the number of people varies during the year depending on seasonal requirements. In addition, we estimate conservatively that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet and about 55 positions associated with the Canadian Coast Guard College that provide training support directly to the fleet.

31.7 Our audit focussed on the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based people directly involved in managing and operating the fleet. The large vessels annually incur between 70 and 80 percent of the operating costs of the fleet.

31.8 Since 1994, the fleet has had to deal with significant fiscal restraint, the merger of the former Transport Canada Coast Guard fleet with the science and fisheries enforcement fleets of Fisheries and Oceans (1995), and further fiscal restraint associated with the merger (1996 to the present). We had expected to find some management issues, given the amount of change the fleet has undergone; however, we are concerned about the number and seriousness of the issues we found. We believe that the resolution of these issues requires management's prompt action.

31.9 While the issues raised in this chapter are considerable and represent a challenge to management, the Department deserves credit for several initiatives that are important to the delivery of the fleet activity. Most notable is the ongoing implementation of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). Also, during 1999–2000, program and fleet managers identified the existing vessels that could be afforded, within available funding, while providing the best possible service. This exercise did not address the problems we identified above; however, it could bring some stability to the environment in which the fleet operates.

The Department's overall response to this chapter follows paragraph 31.139. Fisheries and Oceans accepts our findings and indicates that a study is under way to develop strategic options for fleet management. Following completion of the study, the Department intends to develop an action plan addressing seven specific areas that encompass the issues we have identified.



National Defence

Defence Support Productivity: A Progress Report

Chapter 32 – Main Points

32.1 National Defence's efforts since 1994 to transform itself to a more entrepreneurial organization and to maintain military capabilities in the face of declining financial and human resources have yet to be completed. Efforts to reform the services we examined in 1996 that provide support to the ships, land force brigades and air squadrons of the Canadian Forces remain a work-in-progress.

32.2 In 1996 we reported that the productivity of the base/wing support functions of vehicle maintenance, supply and transportation had either fallen or was less than that of similar service providers. This year we found that, because of massive organizational and process changes, we could no longer measure productivity; nor could the base/wing managers tell us if they were more or less productive than they were in 1996.

32.3 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future.

32.4 National Defence's efforts to improve aircraft maintenance productivity have been relatively successful, although the introduction of AF 9000 Plus, a quality management system, has stalled.

32.5 The Department has achieved limited success in its efforts to shift to a more businesslike environment in those renewal efforts we examined.

- Business plans, although helpful in rationing declining resources, still lack performance measures. Managers continue to express concerns about the adequacy of cost information. As a result, it is difficult for managers to determine whether productivity is improving or declining.
- The devolution of operating budgets to the lowest level of the organization has led to confusion over roles and responsibilities. Managers do not have the knowledge and experience to carry out their new responsibilities. The Department has not provided adequate training on new information systems, and the complexity of the systems has complicated rather than simplified re-engineering and devolution initiatives. The Department has undertaken a number of initiatives to address these issues.
- The Department's efforts to transform its organizational culture continue; however, culture change priorities have yet to be identified.
- As might be expected, the two major alternative service delivery programs most closely associated with defence support productivity are meeting strong internal resistance from potentially affected employees. The Department expects to realize savings beginning in 2004.

32.6 We found that the lack of measurable progress in improving support productivity can be attributed to a number of factors, including:

- the relatively low priority of improving defence support productivity among the Department's competing programs;
- the need to cope with continuing personnel and budget reductions throughout the renewal period; and
- the lack of a strategic plan to guide the Department's reform efforts through its five-year renewal period (1994–1999).

Background and other observations

32.7 The operational ships, land force brigades and air squadrons are sustained by a support system that provides such things as personnel administration, food, fuel, equipment, maintenance and training. In a force of about 60,000, approximately 36,000 are dedicated to operations and training at any given time, with the remainder focussed mainly on continuing support. In dollar terms, support services consume approximately 45 percent of the \$11 billion budget of National Defence. In this audit, we reviewed the progress made by the Department in improving productivity in support functions that we audited in 1996. These functions represent only part of the resources consumed by support services. Measuring and improving defence support productivity is important to ensure that only minimal resources are consumed by support functions so that maximum resources can be dedicated to operations.

32.8 In 1994, in response to the government's 1994 Defence White Paper, National Defence embarked on a five-year renewal program to devote maximum resources to the Canadian Force's combat capability by decreasing the cost of support activities. Between 1994 and 1999, the Canadian Forces were reduced from 76,000 to about 60,000 members. The civilian work force was reduced from 32,000 to about 20,000 employees. During this period of rapid personnel reductions, National Defence completed a number of significant overseas and domestic deployments.

The National Defence response is included in this chapter (paragraph 32.126). The Department stresses that it has faced many challenges and competing priorities that have reduced its ability to improve support productivity. Officials told us that business planning has resulted in greater awareness of the need for efficiency and that their Strategy for 2020 document will provide an overall framework for change.

National Defence acknowledges that the development of activity-based costing information has been slow, but says that its decision-making process has not suffered. The Department is still working on a performance measurement framework.



Follow-up of Recommendations in Previous Reports

Chapter 33 – Main Points

33.1 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

33.2 Our 1998 audit of selected grant and contribution programs of **Industry Canada** and the **Department of Canadian Heritage** identified weak management practices. Our follow-up found that Industry Canada is making reasonable progress in addressing our recommendations. However, we uncovered a new issue — a \$20 million payment in advance of need resulting in as much as \$5 million of interest costs to the government. We found that the Department of Canadian Heritage has not made sufficient improvement in the management of grants and contributions under its Multiculturalism Program. Program objectives remain unclear and there are still serious problems with due diligence. We plan to report again next year on the Department's progress in remedying these problems.

33.3 Our follow-up of three previous chapters on Atlantic fisheries management found that **Fisheries and Oceans** is moving forward with a plan for the development and approval of a sustainable fisheries framework and the development of a new approach to fisheries management for the Atlantic fisheries. While the plan appears to address our key recommendations, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management. Only then can we conclude that our recommendations have been fully addressed.

33.4 Since our report on **Population Aging and Information for Parliament**, the budgetary process has become more transparent and forward looking. The adjustment of budget forecasts for "prudence" is now shown explicitly, rather than embedded in the revenue and expenditure projections. In addition, the fiscal outlook has been extended from two years to five years. This, however, still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

33.5 The departments and agencies responsible for the planning and construction of the **Canadian Security Intelligence Service headquarters** and the **federal laboratories for Human and Animal Health** have taken action on most of the original audit recommendations and observations. However, the laboratory facilities in Winnipeg remain significantly underutilized. The Treasury Board Secretariat has only recently initiated a review of its monitoring role and methodology to ensure an appropriate level of oversight over major Crown projects. Public Works and Government Services Canada has not resolved certain contracting issues such as the definition of errors and omissions in contract documents and introducing meaningful incentives for reducing costs.

33.6 After our audit of the management of the Social Insurance Number (SIN), the government took steps to improve the integrity of data in the Social Insurance Register. **Human Resources Development Canada** has increased the number of investigations of SIN fraud and abuse and actions to address other issues identified by our audit are under way. However, a comprehensive study of the impact and extent of use of the SIN is still needed to fully understand the practical, economic and political implications of its use.

33.7 The government has made progress in its efforts to implement its **Financial Information Strategy** but considerable work is needed to ensure that the financial systems and accrual accounting policies will be in place by the April 2001 deadline. The longer-term integration of better financial information into day-to-day management decision making remains a challenge.

33.8 In addition to those mentioned above, this chapter includes follow-up reports on the **Canadian Customs and Revenue Agency**, the **Department of Finance**, **Human Resources Development Canada** and **Veterans Affairs Canada**. Other follow-up work is reported in different chapters throughout our reports.



Other Audit Observations

Chapter 34 – Main Points

34.1 The *Auditor General Act* requires the Auditor General to include in his Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

34.2 This chapter fulfils a special role in the Report. Our other chapters normally report on value-for-money audits or on audits and studies that relate to operations of the government as a whole. “Other Audit Observations” reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.3 This chapter covers the following:

- Atomic Energy of Canada Limited records its decommissioning and site remediation liabilities;
- managing suspected abuse and fraud in the Employment Insurance program;
- lack of clarity on basis used in setting Employment Insurance premium rates; and
- federal investment in Big Science: the Sudbury Neutrino Observatory.

34.4 Although each audit observation reports matters of significance, they should not be used as a basis for drawing conclusions about matters not examined.



Sustainable Development Strategy for the Office of the Auditor General

Chapter 35 – Summary

35.1 In our second sustainable development strategy, we commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that our own operations are managed in an environmentally responsible manner.

35.2 We have made good progress in implementing our first strategy, but there are several areas that require improvement. Our biggest challenge is to further integrate environmental and sustainable development issues into our audit work. We need to better document changes made to our action plan, and we must also update and complete the implementation of our environmental and sustainable development training plan.

35.3 Our experience with the first strategy has allowed us to simplify our approach to managing sustainable development issues. We have reduced the number of goals and objectives and the indicators of performance that we use to measure our progress; and we have linked our actions to our planned results. From our experience with the first strategy, we learned that we needed to balance our environmental aspirations with other factors, such as increasing the quality of working life.

35.4 During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We have reviewed the implementation of the first round of departmental strategies. Finally, we have assessed the performance of departments and agencies and provided guidance on how they can improve their management of environmental and sustainable development issues and reduce the environmental impacts of their own operations.

35.5 In the next three years, we will continue to perform audits of environmental issues and to follow up on our previous audits. In 2001 we plan to report on an audit of the way the federal government manages its responsibilities for selected sustainable development issues that affect the Great Lakes and St. Lawrence River basin.

35.6 Following amendments to the *Auditor General Act* in 1995 that formally incorporated environmental and sustainable development issues into our mandate, 24 federal departments and agencies tabled their first sustainable development strategies in the House of Commons in December 1997. Another four departments and agencies, including the Office of the Auditor General, voluntarily submitted strategies. The *Auditor General Act* requires that the strategies be updated every three years, and the second round of strategies was due to be tabled by December 2000 if Parliament were sitting.

35.7 The framework for our strategy focusses on three major areas: our audit work, our day-to-day operations, and our human resources. We believe it is in our audits and studies of federal organizations that we have the greatest impact.

35.8 Our sustainable development strategy aims to promote sustainable development among parliamentarians, federal organizations and Canadians in general. More specifically, our strategy tells parliamentarians how we integrate environmental and sustainable development considerations into our business as a legislative audit office, and how we measure the success of our efforts.

35.9 In the past three years, our Office has brought many environmental and sustainable development issues to the attention of Parliament and federal organizations through our financial audits, special examinations and

value-for-money audits, including our reviews of the sustainable development strategies. We have provided guidance through studies and other publications, including *Moving Up the Learning Curve*, a 1999 report by the Commissioner of the Environment and Sustainable Development. That report set out what the Commissioner expected to see in the second round of sustainable development strategies.

35.10 This chapter sets out our own second strategy. It includes:

- a description of our Office — our mandate, the work we do and the impact that we aspire to achieve;
- a summary of our performance and the lessons learned from our first strategy; and
- our objectives, indicators of performance and our planned results for the next three years.